

VZCZCXRO9605
OO RUEHCN RUEHGH RUEHVC
DE RUEHGZ #0527/01 1290651
ZNY CCCCC ZZH
O 090651Z MAY 07
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6028
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/USDOC WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

C O N F I D E N T I A L SECTION 01 OF 02 GUANGZHOU 000527

SIPDIS

STATE FOR EAP/CM AND DRL
USDOC FOR 4420/ITA/MAC/MCQUEEN
USPACOM FOR FPA

CONFIDENTIAL

SIPDIS
SIPDIS

E.O. 12958: DECL: 04/22/2017

TAGS: [ETRD](#) [ECON](#) [PGOV](#) [CH](#)

SUBJECT: Dell China: Expanding Amid Concerns of Growing
Nationalism Affecting the Market

Classified by Robert Goldberg, Consul General, Guangzhou,
Reasons 1.4 (b/d)

¶1. (C) Summary: In meetings with the Ambassador, executives from Dell-China took note of the critical importance of China to Dell's future operations in the Asia-Pacific region, expressed confidence in their ability to continue building market share and discussed Dell's expansion plans, especially out of its plant in Dalian, which is geared toward exports to Japan and South Korea. Dell China President Amit Midha expressed concern about PRC Government efforts to direct Chinese IT purchases to local companies. He also suggested that the draft labor law could restrict company flexibility in terms of hiring temporary workers and took note of rising consumer litigation against defective Dell products. End summary.

¶2. (C) During meetings April 17 and 18 in Xiamen with Ambassador Randt, the Consul General and staff members, senior Dell executives [Dell China President Amit Midha, Managing Director York Li and General Counsel Albert Wang] provided an overview of Dell's development, growth and evolving market strategy in China.

Expansion

¶3. (C) Dell's two factories in Xiamen currently supply 70-to-80 percent of the North Asia market. Dell's service base is centered in Shanghai and its Dalian plant is oriented toward the Japan and Korean markets. The company plans to expand its manufacturing base in Xiamen by opening more lines and optimizing the use of its workshop space.

¶4. (C) Most of Dell's suppliers are American or Taiwan companies. About 80 percent of them manufacture in China, mainly in tax-bonded zones. In 2003, Dell was China's 10th biggest foreign investor. In 2005, the company's global procurement from China was about USD 16 billion, which, according to Peking University researchers, created about 1.5 million jobs in the country. Dell directly and indirectly contributed USD 36.4 billion to China's economy, more than 1 percent of national GDP. Dell's purchases out of China increased last year to USD 18 billion and are expected to amount to USD 22 billion this year. In Xiamen, Dell accounts for about 16% of the Prefecture's industrial revenues and pays USD 2.3 billion in taxes.

Rising Nationalism

15. (C) At his breakfast meeting with the Ambassador on April 18, Dell China President Amit Midha expressed concern about Chinese Government efforts to promote local standards without regard to international standards-making procedures. The Central Government was now requiring Dell to account for the local content and domestic IPR of its products and the lack of same has had an impact on Dell's ability to access the lucrative government procurement market. Dell has been able, however, to design a first-time buyer computer, the EC 280, in its Shanghai research and development center, which retails in China for USD 300 and is selling well.

New Labor Union

16. (C) In response to the Ambassador's question about the impact of the Chinese labor movement on Dell, the executives said that the company had been on the black list of the All China Federation of Trade Unions (ACFTU), along with Wal-Mart, for not having a trade union. Dell did have an employee committee that gave voice to employees' concerns, however. According to Wang, the employees did not see a need for having their own trade union, but Dell, nonetheless, had decided to quietly establish an ACFTU branch; the head of Dell's union is a long time employee. Wang said trade unions would have a greater impact on employees in domestic firms and Taiwan-invested enterprises, where working conditions are poor and employees do not have input into work procedures. Dell China handled its sometimes difficult relationship with the national ACFTU by doubling its government relations efforts and seeking assistance from contacts in the State Council's Ministry of Commerce, as well as in the Xiamen ACFTU. Wang said labor disputes were inevitable, and Dell's strategy would be to follow all of the government's labor

GUANGZHOU 00000527 002 OF 002

regulations and to guarantee maximum transparency in dealing with its employees. Dell's employees are young, with an average age of 29, and have a "new economy" outlook.

17. (C) Dell is concerned about proposed changes in a draft labor contract law that would automatically make temporary workers permanent once certain conditions are met. The draft law could thus limit company flexibility in responding to market and seasonal fluctuations.

Media Coverage of Lawsuits

18. (C) Consumer litigation is another challenge that Dell has tried to handle with a low-profile strategy. Domestic customers have sued Dell for "false advertising" due to reportedly having the "wrong" chips in ordered products; the local district court in Xiamen is hearing the case. Negative media stories against Dell regarding the case have been confined mainly mostly to blogs and on bulletin boards rather than in mainstream media. In other cases, Dell staff believe that the mainstream media has engaged in campaigns against Dell similar to those against other large American companies, including Proctor and Gamble, McDonald's, and KFC. Wang cited the media's handling of the way in which Dell's global recall of defective laptop batteries spread in the press, while a similar problem with Lenovo batteries was ignored. Though the negative stories have had little impact on Dell's business, officials are concerned about the effect of such press on employee morale.

Relations with Local Government

19. (C) Despite the trade union and litigation crises, Dell still has excellent relations with local Xiamen Government leaders and agencies. Dell was able to find additional land for expansion at a time when the Prefecture faced land shortages. In contrast, Dell did have problems with a local district

government in Shanghai which wanted to revoke a land use contract that its predecessors signed several years earlier. The district government tried to force Dell to yield by flooding the company with officials - from the tax bureau to the labor bureau - who repeatedly inspected Dell's operation.

¶10. (C) Dell-China President Midha said that despite labor problems, differing standards and the government's reluctance to certify Dell for government procurement, Dell would be even more successful than it has been were it not for a few mistakes. He cited delays in rolling out new products; reading customer preferences incorrectly; higher operational costs; investments in some consumer products that have not paid off, such as television; and slowness in investing in direct consumer support. The return of Michael Dell to the helm signifies the return of Dell culture. Michael Dell has attracted stars to help him manage the decision-making process more quickly.

Comment: Favoring Local Producers

¶11. (C) While the draft labor contract law is of concern and could affect Dell's manufacturing flexibility; Dell is much more concerned about the Central Government's decision to favor Chinese producers by insisting on indigenous standards, a situation similar to the WAPI issue of several years ago. China's preference for locally developed IPR also prejudices Dell's chances of selling to Chinese Government customers at all levels. Dell's situation is similar to that of many American enterprises, which have problematic relations with local Chinese governments and which find it difficult to operate in a non-transparent business environment.

GOLDBERG